

Message Text

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ACTION ARA-06

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FM AMEMBASSY LIMA

TO SECSTATE WASHDC IMMEDIATE 7335

C O N F I D E N T I A L L I M A 8798

LIMDIS

FOR ARA - WILLIAM ROGERS; L- MONROE LEIGH; EB - THOMAS ENDERS
TREASURY - JOHN BUSHNELL; COMMERCE - DON ARRILL; CIEP - WAYNE
SHARPE

E.O. 11652: GDS

TAGS: EINV, EIND, PFOR, PE

SUBJECT: MARCONA - US GROUP MEETING WITH MARCONA OFFICIALS

1. SUMMARY: MARCONA VICE PRESIDENT FURTH AND BRADFIELD
MET WITH AMBASSADOR AND WASHINGTON TEAM ON WEDNESDAY AFTER-
NOON. AMBASSADOR REVIEWED POSITION THAT HAS BEEN TAKEN
BY GOP AND FISHLOW OUTLINED POSTURE WHICH USG IS TAKING,
EMPHASIZING OUR VIEW THAT BURDEN IS NOW ON GOP TO COME FOR-
WARD PROMPTLY WITH REALISTIC PROPOSAL. FURTH GAVE ADDI-
TIONAL DETAILS ON SHIPPING AND EXPLANATION OF UTAH MINING
WRITE-OFF REFLECTING MARCONA EXPROPRIATION. MARCONA OFFI-
CIALS WELCOMED USG APPROACH AND OFFERED ALL POSSIBLE ASSIS-
TANCE, AND IT WAS AGREED THAT WASHINGTON TEAM WOULD KEEP
IN CLOSE TOUCH WITH THEM.

2. AMBASSADOR AND MEMBERS OF THE U.S. TEAM MET WITH
FURTH AND BRADFIELD IN AMBASSADOR'S OFFICE WEDNESDAY
AFTERNOON, OCTOBER 22. FURTH OPENED THE MEETING BY
ASKING THE AMBASSADOR TO REVIEW THE NATURE OF THE GOP'S
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REQUEST TO THE EMBASSY LAST WEEK. AMBASSADOR SAID THAT

DE LA FLOR SET OUT THE THREE OPTIONS AS SEEN BY THE GOP:

(A) GOP-MARCONA TALKS, (B) GOP-USG TALKS, (C) GO-IT-ALONE CONFRONTATION. DE LA FLOR SAID FIRST ALTERNATIVE HAD BEEN TRIED AND HAD FAILED. ON THURSDAY, OCTOBER 16, DE LA FLOR NOTIFIED AMBASSADOR OF GOP INTENT TO ANNOUNCE BREAK-OFF IN MARCONA TALKS AND SAID THIS MEANT GOP HAD CHOSEN ALTERNATIVE (B).

3. BRADFIELD ASKED WHETHER WE NOW CONSIDERED THAT GOP-USG NEGOTIATIONS ARE GOING FORWARD. FISHLOW REPLIED THAT, RATHER, WE HAVE NOW SAID WE ARE PREPARED TO EXPLORE THE POSSIBILITIES FOR SUCH TALKS AND EMPHASIZED NEED FOR SUBSTANTIVE GOP RESPONSE.

4. FURTH SAID THAT THE ASSESSMENT THAT TALKS HAD BROKEN DOWN WAS THE GOP'S, NOT MARCONA'S. MARCONA WAS PREPARED TO CONTINUE THEM.

5. FURTH REPORTED THAT HE HAD INFORMATION THAT DE LA FLOR HAD TOLD CABINET THAT MARCONA MATTER WAS NOT OF IMPORTANCE TO USG. FURTH ADDED THAT PRESENCE OF FISHLOW MISSION AND MESSAGE IT IS BRINGING TO GOP IS USEFUL IN REAFFIRMING EARLIER EXPRESSIONS OF CONCERN IN WAY THAT SHOULD REMOVE ANY POSSIBLE MISUNDERSTANDING REGARDING IMPORTANCE USG ATTACHES TO MARCONA ISSUE.

6. BRADFIELD ASKED WHAT PROPOSALS WE INTENDED TO MAKE TO GOP. FISHLOW SAID WE WOULD OUTLINE CONDITIONS WE CONSIDER ESSENTIAL AT THIS JUNCTURE, E.G., AGREEMENT ON SOME INTERIM ARRANGEMENT WITH MARCONA TO GET ORE MOVING AGAIN, OR A REALISTIC BOTTOM LINE PROPOSAL. WE ARE WILLING TO LISTEN, BUT THE BURDEN IS ON GOP TO COME FORWARD WITH A PROPOSAL. FURTH SAID THIS WAS EXCELLENT APPROACH AND HE WOULD BE STANDING BY TO PROVIDE WHATEVER ASSISTANCE HE COULD.

7. FISHLOW PASSED ON GOP ALLEGATION THAT MARCONA PERU COULD HAVE BEEN DECLARED BANKRUPT BECAUSE DEBTS EXCEEDED "FIFTY PERCENT OF CAPITAL AND RESERVES". FURTH CHARACTERIZED THIS ALLEGATION AS "UTTER HOGWASH". HE ADDED CONFIDENTIAL

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THAT WHILE GOP MAY BE TECHNICALLY CORRECT BECAUSE OF DEPLETION TAX CASE, MARCONA HAD BEEN PAYING DEBT INSTALLMENTS IN ACCORDANCE WITH PERUVIAN LAW.

8. ON QUESTION OF VALUATION, FURTH EMPHASIZED THAT THEIR FIGURES REPRESENTED A REAL BARGAIN FOR PERU AND CITED THE PLANNED INSTALLATION OF A SIMILAR PLANT IN BRAZIL WITH TWENTY PERCENT GREATER CAPACITY AT AN EXPECTED COST

OF \$570 MILLION.

9. ON THE ISSUE OF SHIPPING, FURTH NOTED THAT MARCONA OWNS TWELVE SHIPS AND RENTS OTHERS. HE SAID THAT CURRENT SHIPPING RATES WERE SHARPLY DEPRESSED, WITH THE SPOT RATE BEING ABOUT \$5-\$5.50 A TON FOR A SINGLE SHIPMENT OR A VERY SHORT-TERM CONTRACT, POSSIBLY UP TO SIX MONTHS. SHIPPERS, FEELING BETTER TIMES ARE IN PROSPECT, WOULD NOT MAKE LONG TERM COMMITMENTS FOR LESS THAN \$7 DOLLARS A TON, AND THIS IS THE RATE MARCONA WAS USING IN ITS ARRANGEMENTS WITH PERU AND THE RATE IT WOULD NOW BE WILLING TO OFFER. FURTH ADDED THAT THEY COULD GET JAPAN TRADE GOING AGAIN QUICKLY FOR PERU, USING FOUR CHARTER SHIPS AND TWO MARCONA SLURRY SHIPS.

10. FURTH EXPLAINED THAT MARCONA PERU SHOWED LOSSES FOR 1972, 1973, 1974 AND THE BEGINNING OF 1975 BECAUSE EXCHANGE RATE, FROZEN AT UNREALISTIC LEVEL, MEANT LABOR SETTLEMENTS COULD NOT BE ABSORBED. THIS SITUATION WAS FURTHER COMPLICATED BY 1973 BUNKER FUEL PRICE RISE. A TURNAROUND OCCURRED IN 1975 AND ASSUMPTION OF FUTURE POSITIVE STREAM OF EARNINGS IS JUSTIFIED.

11. FURTH REVIEWED COMPLEX SITUATION THAT LED UTAH MINING TO WRITE OFF THEIR BOOKS AN AMOUNT REFLECTING THE MARCONA EXPROPRIATION IN ORDER TO MAINTAIN THEIR MOMENTUM IN PUTTING TOGETHER A FINANCING PACKAGE FOR THE BRAZILIAN PROJECT. HE EMPHASIZED THE ILLEGITIMACY OF DRAWING ANY IMPLICATIONS REGARDING THE VALUE OF MARCONA PERU FROM THE AMOUNT OF THE UTAH WRITEOFF.

12. WE AGREED THAT WE WOULD KEEP IN CLOSE TOUCH WITH FURTH AND BRADFIELD AND KEEP THEM FULLY INFORMED OF OUR DISCONFIDENTIAL

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CUSSIONS WITH THE GOP.

13. THIS TELEGRAM CONTAINS PROPRIETARY INFORMATION THAT SHOULD NOT BE DIVULGED TO THIRD PARTIES.
DEAN

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